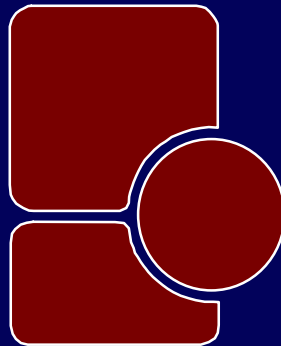


**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



**Legislative Oversight of the
Virginia Retirement System, and
Semi-Annual Investment Report**

**JLARC Staff Briefing
July 10, 2000**

Presentation Outline

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- **Background on Legislative Oversight of VRS**
- **Virginia General Assembly's Approach to VRS Oversight**
- **VRS Oversight Reports**
- **Benefits of VRS Oversight**

VRS Prior to 1994

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- **Constitutional requirement for General Assembly to maintain a State employees' retirement system**
- **VRS was an executive branch agency and the Governor appointed all members of Board of Trustees**
- **Limited communication between VRS and General Assembly**

A Single Investment Created a Large Problem

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- **Acquisition of RF&P Corporation in 1991 for \$540 million (about three percent of total VRS assets)**
 - Many legislators did not think 100 percent ownership of real estate development company was prudent
 - Issues concerning the Freedom of Information Act (FOIA), payment of attorneys fees, and soundness of the pension fund
 - Negative media coverage and poor public relations
- **Criminal investigation into the acquisition was also conducted**

Legislative Response

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- 1993 study resolution directed JLARC to study governance, investment policy including the RF&P investment, and actuarial soundness of VRS
 - JLARC retained investment, actuarial, real estate, and legal consultants
- Three reports to the 1994 General Assembly Session covering
 - RF&P
 - Governance, investment policy, actuarial soundness
 - Group life insurance program

Restructuring of VRS by 1994 General Assembly

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■ Based on JLARC report recommendations:

- VRS Board of Trustees enlarged, legislature responsible for making four appointments
- Legal list of authorized investments eliminated and prudent person standard adopted
- Chief Investment Officer's role and responsibilities codified
- Independent agency status
- Prefunding of COLA made a priority
- Formal structure for legislative oversight established

Major Developments at VRS Since July 1994

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- Increased equity exposure in asset allocation
 - Fund assets increased by more than \$20 billion to \$39 billion
- Prefunding of COLA achieved
- RF&P sold in December 1996
- Increased emphasis on customer service
- Constitutional amendment approved in November 1996 designating VRS funds as independent trust funds

VRS Oversight Act

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- Virginia Retirement System Oversight Act (§30-78 through §30-84, *Code of Virginia*) provides JLARC with statutory responsibility to monitor VRS on an ongoing basis
- Areas for review and evaluation include
 - Structure and governance of system
 - Investment practices, policies and performance
 - Actuarial policy and soundness of trust funds
 - Administration and management of system

VRS Oversight Act Provides Broad Authority for Evaluation

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- Access to executive session meetings and records
- Access to employees, consultants, actuaries, investment managers, advisors, attorneys, consultants or other contractors
- Actuary under contract for use by JLARC and the House Appropriations and Senate Finance Committees
- JLARC Chairman may appoint permanent subcommittee to provide guidance and direction for VRS oversight activities

JLARC Approach to VRS Oversight

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- Pursuant to statutory requirements and legislative direction
- Attend all meetings of Board and Investment Advisory Committee and review meeting materials
- Interviews with VRS management and staff
- Prepare required reports

Statutorily-Required VRS Oversight Reports

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- VRS Informational Guide for Legislators
- Biennial Status Report
- Quadrennial Actuarial Report
- Semi-Annual Investment Report

Legislator's Guide to the VRS

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- Required by §30-81E of *Code of Virginia*
- Intended as a reference document for use by individuals who need accurate information concerning:
 - VRS governance and administration
 - Benefit structure
 - Investment policy
 - Benefit funding policy
 - Recently-enacted retirement legislation

Biennial Status Report

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- Required by §30-81D of the *Code of Virginia*
- Review of VRS policy, planning, and operations
 - Governing structure
 - Independent agency status
 - Strategic planning
 - Management and staffing
 - Fund's funding status

Quadrennial Actuarial Review

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- The quadrennial actuarial review was last completed in 1997
- Focused on reasonableness of assumptions used in latest VRS actuarial valuation and addressed
 - Exchange of pertinent data for earnings assumption between investment department and actuary
 - Consistency of earnings assumption with assumption used to develop asset allocation
 - Exchange of pertinent data for salary and payroll assumptions between employers and VRS

Semi-Annual Investment Report

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- Required by §30-81A of the *Code of Virginia*
- Monitor investment performance relative to benchmarks

July 2000 Semi-Annual Investment Report

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- The market value of the fund's assets as of April 30, 2000 was \$39.7 billion
- Through April 2000, the fund's one year investment return of 14.7 percent exceeded the performance benchmark
 - In addition, the total fund's 17.3 percent three year and 17.7 percent five year investment returns also exceeded established benchmarks
- The total fund annual investment return for the 10 year period ending April 30, 2000 was 13.6 percent

July 2000 Semi-Annual Investment Report

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- The VRS investment department has recently completed or is in the process of completing a number of initiatives which include:
 - Bringing passively-managed fixed income assets in-house under VRS management
 - Implementing a performance-based fee structure for most external active managers
 - Assuming management of all private equity accounts from an external management firm resulting in \$2 million in annual cost savings
- Finally, investment department staff will be involved in the upcoming asset/liability study that will focus on the fund's asset allocation policy

Benefits of VRS Oversight for Virginia

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- **Commensurate with General Assembly's constitutional responsibility**
- **Facilitates continuing communication between VRS and General Assembly**
- **Promotes accountability of an independent agency**
- **Promotes greater legislative understanding of VRS investments and funding process**